

City of Detroit

CITY COUNCIL

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TO: COUNCILMEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*
Anne Marie Langan, Deputy Director *AML*

DATE: July 19, 2007

RE: Variance Between Fiscal Division's and Auditor General's
Assumptions on the Fiscal Impact to the City Due to Non-Resident
Employees

Attached, our office has created a chart that outlines and compares the differing results of our analysis on the revenue loss to the City as a result of the state law prohibiting residency restrictions of employees. The Fiscal Analysis Division report was submitted to your Honorable Body in March, and you received the Auditor General's report last week.

The two most significant variances relate to the assumption of lost income tax if there was a second wage earner in the household of the city employee that became a non-resident, and the use of a multiplier factor of 25%. These two varying assumptions represent 45% of the total difference in lost revenues to the city.

Our office chose to use the multiplier factor of 25% simply to maintain consistency with the assumptions used by the Anderson Economic Group in the original report for the Archer Administration when the residency law was debated in Lansing. However we chose to assume that there was a second wage earner in the household, when in fact the Anderson Economic Group did not include this in their assumptions.

Since there are numerous assumptions that are made in any analysis we again recommend that an economist be hired to do an extensive evaluation on the lost revenue to the City, both direct and indirect, with the population that has declared an address change outside of the city since 2000. The economist will be in a better position to provide actual data in support of the assumptions included in their analysis.

Attachment -1

cc: Council Divisions
Auditor General
Roger Short, Finance Director
Kandia Milton, Mayor's Office

Item	Fiscal Division's Assumptions	Auditor General's Assumptions	Reason for difference
Income Tax – Employee	\$ 2.30 Million	\$ 2.452 Million	Variance of \$(152, 000). Different data sets.
Income Tax – Second Wage earner in household	\$ 2.25 M	\$.279 M	Variance of \$1.971 million – AG's number reflects the difference between the average salary and the median Detroit household. Fiscal's number assumes 80% of non-resident employees have second wage earner with an average salary of \$45,000.
Property Tax	\$ 3.156 M	\$ 2.475 M	Variance of \$681,000 – Fiscal assumed 75% homeownership with a taxable value of \$35,000. AG assumed 60% ownership with a median value of \$63,600.
Solid Waste Fee	\$ 1.001 M	\$.708 M	Variance of \$293,000 - Different data sets.
Utility User's Tax	\$.601 M	\$.708 M	Variance of \$(107,000) - Different data sets.
Multiplier Effect	\$ 2.327 M	\$ -0-	Variance of \$2.327 M – AG did not find support for use of a multiplier.
TOTAL – Assumed Fiscal Impact on City Budget	\$ 11.635 M	\$ 6.622	Variance of \$5.013 M
Local Retail Loss	\$ 22.600 M	\$ -0-	The AG was not aware that Fiscal had opined on these two ancillary segments of assumed fiscal impact.
Education Dollars from State School Fund	\$ 11.870 M	\$ -0-	